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PROPOSED AMENDMENTS TO THE CORPORATIONS ACT

Grant Thornton Australia is pleased to provide Treasury with its comments on the Discussion Paper 'Proposed Amendments to the Corporations Act'. Grant Thornton Australia's response reflects our position as auditors and business advisers to listed and privately held companies, and other businesses.

This submission has benefited with input from our clients, and discussions with key constituents including the members of the Australian Public Policy Committee that comprise the 7 large auditing firms and the professional accounting bodies.

1. Dividend reform

On the main issue being Dividend Reform, Grant Thornton Australia supports the principle behind Option 2 'Adopting a solvency test', and note that this is consistent with both the APPC's submission and the professional accounting bodies separate submission.

At the time that the Reform Act was being debated in Parliament, Grant Thornton and a number of other organisations raised concerns about including an assets test which would in our opinion simply repeat the issues that gave rise to the need for reform being the impact that IFRS accounting standards have on when a dividend could be paid, given the existing profits test which some saw as being impacted by IFRS.

Our view at the time was that the profits test should be abolished and instead reliance be just placed on the then existing solvency test in the Corporations Act (i.e. now S254T (1) (B-c) being that the dividend payment is fair and reasonable and does not materially prejudice the company's ability to pay creditors. We remain of the view that a solvency test is all that is needed for payment of dividends, and do not believe that the alleged deficiency noted in the Discussion Paper being less objective and consistency is a problem at all. There is no need to have a link to IFRS accounting standards, and it is that link which was seen as a need to reform the profits test for dividend payments.

The other 3 Options all suffer from having a link or links to an IFRS accounting standards test which in Grant Thornton opinion creates less objectivity and consistency due to unrealised amounts that are or are not recognised by IFRS accounting standards and at times have no bearing on the solvency of a company.

2. Other Corporations Act issues in respect of the dividend test

Given our support for a solvency only test for dividend payments, Grant Thornton does not believe that any further amendments are required.

3. Taxation issues

When dividend proposals were being debated in 2009-10, our understanding was that a change in the dividends payment tests would not necessarily have any significant impact on the quantum of dividends that might be paid. On that basis, any change in thinking by the Australian Tax Office (ATO) on franking of dividends is a matter for the Government to determine. From an accounting perspective, we do not understand why abolishing a profits test with a solvency test, should trigger any changes in the tax impact.

4. Other amendments – Parent entity reporting requirements and Changing the financial year

Grant Thornton supports both amendments which we see as clarifying the intent behind the 2010 amendments. We see no reason why the parent company relief should be limited to the applicability of specific accounting standards, nor do we believe that the financial year should be defined as precisely 12 months.

If you require any further information or comment, please contact me.

Yours sincerely

GRANT THORNTON AUSTRALIA LIMITED



Keith Reilly
National Head of Professional Standards